RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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Dec. 11, 1991 **LETTER 1084**

The Good News: President Bush says the recession is over. **The Bad News:** This is the recovery.

Sign of the Times: Dec. 5 saw two of America's great corporations (both former bellwethers), IBM and GM, break to new lows (IBM to a nine-year low). On the same day famous pioneering airline Pan American filed for bankruptcy. The latter makes me particularly sad because my old friend (now deceased) General Merian C. Cooper, was an original founder of Pan Am (for more on this see Notes & Quotes).

On to the MARKETS: The strange, schizophrenic split that I have talked about in recent Letters continues. On the one hand consumer confidence has collapsed to a 11 1/2 year low. On the other hand, the public's buying of stock and bond funds continues at a furious pace. For instance, sales of stock and bond mutual funds for October totaled $25.2 billion. That was up 21% from September and up a huge 145% from October 1990.

Speculation? Listen to this from a November 24 piece by *Ned Davis Research:* "The latest figures for last Friday show the Fidelity Biotech Fund soaring to over $1 billion, up from $954 million just 21 months ago. Add in $957 million from Health Care, and one has 57% of all the assets of the 35 Fidelity Select equity funds in just these two groups. Talk about concentration of switch fund accounts who have historically been in-and-out speculative traders."

Is this one of those rare cases where the market, instead of leading, is following the economy down? Well, it has happened a few times before, and probably the most dramatic instance was in 1929. In 1926 the great, speculative Florida real estate boom collapsed, and the market went into a severe reaction. But despite the loss of tens of millions of dollars in the Florida real estate collapse, the stock market turned up again, and all during 1928 and most of '29 speculation was intense. Actually, business hit its peak in July of '29 with *Barron's Business Index* at 115.1. By September (with the Dow at all-time high of 181.23) *Barron's Index* had dropped to 108.6. In October (with *Barron's Index* down to 106.5) the market crashed, and by November, the stock market was in smithereens. Despite the crash, the great upward correction of early-1930 kept investors optimistic. Roger Babson, the famous economist who had predicted the crash, turned bullish in 1930, thinking that the lows of '29 had discounted the worst.

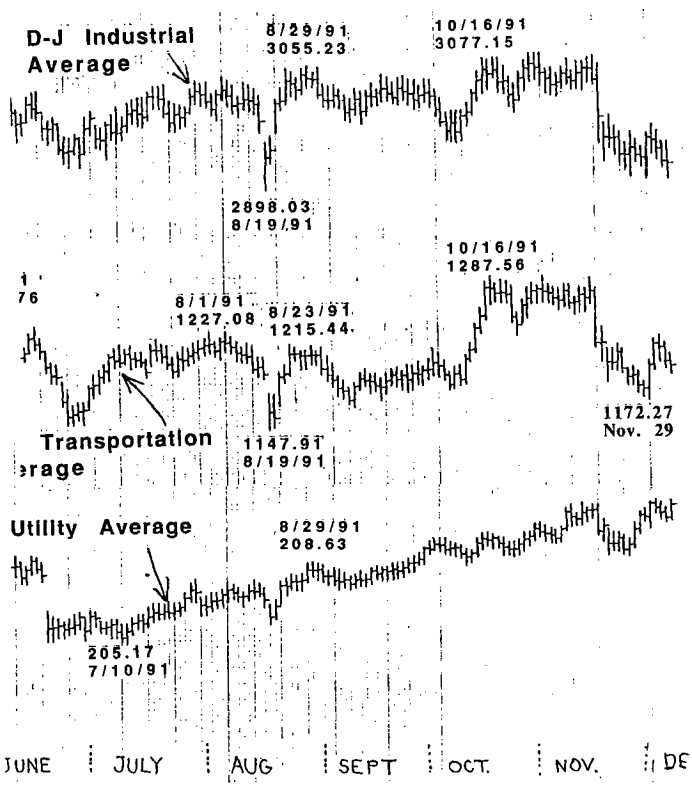
The shock, the great shock, was not the '29 crash or even the '30 recovery. The shock was that following the great 1930 rally the market turned down again, and it continued precipitously down until July 1932. By July 1932 the Dow had given up an unbelievable 89% of its peak value. That was the great shock. It was a disaster that even the most ferocious of the bears had not prepared for.

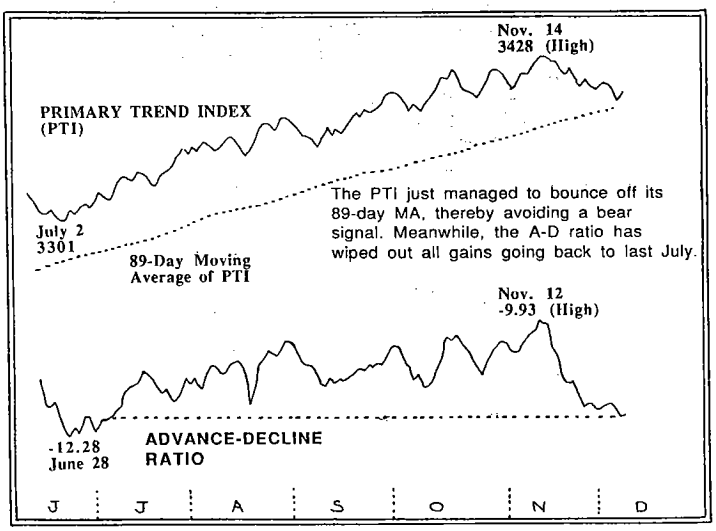
Nov. 29 DJIA 2894.68; PTI 3400; A-D Ratio -11.68
Dec. 6 DJIA 2886.40; PTI 3398; A-D Ratio -11.81
Dow Yield: 3.17%; Dow P/E: 28.6; DowPow: -222
Dow 200-day MA: 2968; Dow 30-day MA: 2978
Dow Times Book Value: 2.16; PTI 89-day MA: 3385
Percentage of Undervalued Blue-chips: 12%

So much for the shocks and deceptions of 1929-32. Today we have a churning,frustrating, trading-range market. It's a market that essentially has gone nowhere since February. I have always considered the Value Line Composite to be a good proxy for the typical investor's portfolio of stocks. On November 29 the Value Line Composite closed at 232.36, its lowest level since March 1.

I continue to emphasize the importance of the investment-grade, blue-chip segment of the market. This is the segment best represented by the D-J Industrial Average. Currently, the Dow remains below both its 30-day and 200-day moving averages. The 30-day MA of the Dow has turned down, and as of this writing it is still 10 points above the 200-day MA. An important bearish signal would be given if or when the 30-day MA drops below the 200-day MA. Currently, the 30-day Dow MA stands at 2978, while the 200-day MA stands at 2968 .

Advisory reports that I read (and I read dozens of them) are all over the landscape in their opinion of what's going on. Some claim stocks are "back in the bargain area," others warn of "more declines to come," while still others confine their analysis to what the Administration or the Fed might or might not do to fire up the economy and the stock market. Of course, the truth is that nobody can be certain of what's going on. How can they be? The situation has not yet clarified.





However, I want to quote from one advisory that I find particularly deceptive, and then offer a few comments. This advisor writes, "Recession, high unemployment, terrible earnings outlook, record high price/earnings ratios . . . we just love to see all this 'bad news' because it almost guarantees a continuing rise by the stock market." Russell comment: This kind of thinking (which has been extremely prevalent) might hold water if we were experiencing a guaranteed bull market correction. But suppose, just suppose, that we are witnessing the beginning of a three or four year primary bear market. If that is the case, then the bad news that is emerging is hardly bullish. In a true primary bear market (to paraphrase Gertrude Stein) bad news is bad new is bad news. And in a primary bear market, the bad news tends to get worse.

So the crux of it is that you don't buy the bad news in a primary bear market. Well, there is one exception. You do buy the bad news at the bottom of a bear market when blue-chip yields are juicy, when investor sentiment turns black, when volume is very low -- and (this is important) when the bad news fails to have any further effect on stock prices.

All of which brings me to a discussion of the primary trend. The big question here, the overwhelmingly most important question is -- what is the direction of the primary trend? To put it another way, are we looking at a correction in a continuing bull market -- or has the primary trend finally turned bearish?

Unfortunately, the turn in the primary trend can never be recognized immediately. It takes time to identify the turn. And unfortunately, by the time one recognizes that "it isn't a bull market correction, it's a continuing bear market," losses are liable to be extreme.

For this reason, I have always advocated moving out of stocks when they become overvalued (as they are now). But there are many forms of insurance against losses in a bear market. One technique which I have seen successful investors use is as follows: once blue-chip values become severely overvalued, these investors monitor the Dow carefully. If the Dow drops below its 200-day moving average they sell half their holdings. Then if the weakness continues, and the 30-day moving average drops below the 200-day moving average, they sell out their common stock holdings completely.

What about those who are strict Dow Theorists? Dow Theorists will unload their stocks when the blue-chip segment of the market becomes extremely overvalued (as was the case at the November highs). But if there is any doubt about the situation, Dow Theorists would certainly sell on the advent of a bear signal or if the Averages break below critical support points.

As stated in the last Letter, I felt critical points were the August 19 lows, **2898.03** for Industrials and **1147.91** for the Transports. On November 29 Industrials did close below 2898.03 for a single day, but the Transports did not confirm. So it remains to be seen whether this market holds together or whether the Averages break down, signaling the advent of a primary bear market.

In the meantime, my **Primary Trend Index** (PTI) should be of help here. As noted in the last Letter, the PTI has already broken below a long, well-tested trendline. This is obviously not a good omen, but in order to reverse to the bearish mode, I require the PTI to break decisively below its 89-day moving average and remain there. That has not yet happened (see page 2 chart).

The **advance-decline ratio** (page 2 chart) has now dropped below both its September and October lows. This tells us that the breadth of the market is weak, and that the majority of stocks have not fared well on the decline from the November highs. So it will be important to see whether, during forthcoming Dow rallies, the A-D ratio can revive. My guess is that the A-D ratio has topped out, and that it will not recover to new highs during this cycle.

Conclusion: At the November highs, the market exhibited all the characteristics of a major bull market top. Blue-chip stocks were vastly overvalued, speculation was intense, the public was bullish and buying heavily, and leading analysts were openly predicting that the Dow was heading for 4000 (actually, a few still are predicting a 4000 Dow, but they are simply moving out their time frame).

FURTHER COMMENTS: The **D-J Transportation Average** has been holding up considerably better than the Dow. Why? Darned if I know, because I've never seen any average so overvalued. Most of the following data is courtesy of my old friend, Gerry Weiss, of La Jolla's *Investment Quality Trends*. The D-J Transportation Average is showing a total collective deficit of -$25.22 and a ridiculous dividend yield of 1.5%. Among the 20 stocks in this Average, five have suspended their dividends, nine have deficit earnings and seven have dividends which are not covered by earnings! Only five of these stocks are of blue-chip quality; they are Burlington Northern, Norfolk Southern, Roadway Services, Ryder Systems and Union Pacific. But the dividends of Burlington and Ryder are both in jeopardy. Only Roadway of all 20 Transport stocks is in the fairly priced blue-chip category with a safe dividend. Says *IQ Trends*, the Transport group "is about as Overvalued as any group of stocks ever has been." Russell comment: I've been saying this all year, but thanks for this great rundown, Gerry.

I just received a letter from Donald Dunn of Kansas City, a very acute market observer. Don notes the following: October 29 was an historic day in that it marked the eleventh time that the Dow has doubled in price, and the third time that the Dow has doubled since 1929. Here's the record:

1787	$ 1.50
1789	3.01
1800	6.03
1821	12.06
1853	24.13
1889	48.25
1915	96.52
1927 (September)	193.05
1929 (September 3)	386.10
1964 (June)	772.20
1986 (January 3)	1544.40
1991 (October 29)	3088.80

So October 29, 1991, saw an epochal doubling of the Dow, the third time the Dow has doubled in the modern era (since '29). Is this the end of an era? Is this the magic three, the final doubling of the Dow? Only time will tell, but all of the above is what makes the study of the market so fascinating.

Japan's Nikkei Average has been weak. Recently, the Nikkei dropped an incredible 12 out of 13 days, ending the losing string with a huge 3% drop on December 1. This took the Nikkei below 22,000. The **20,000 level** is considered to be the critical support area. Consequently, all knowledgeable market students are now watching to see whether the Nikkei can hold above 20,000. If that level holds, Japan may yet emerge from its currently deflating real

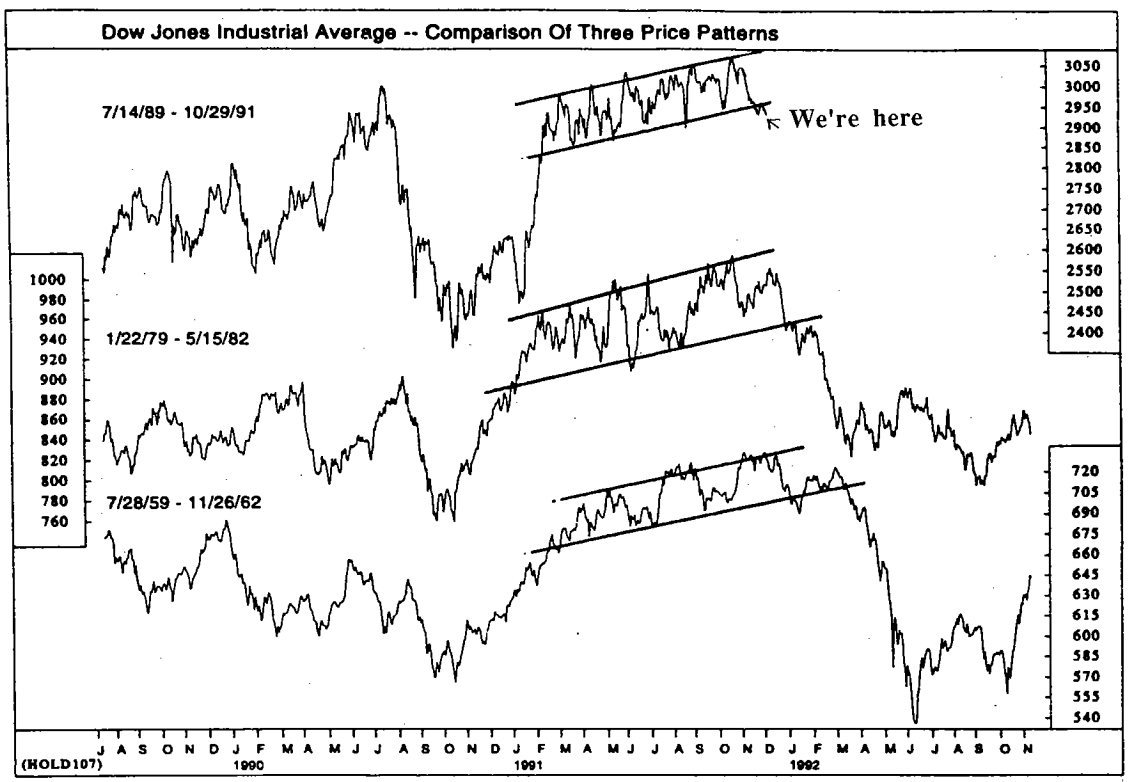
estate market and bank crisis relatively intact. But if 20,000 is violated, expect all hell to break loose. A decisive violation of 20,000 would mean that the Nikkei had lost over half of its peak value in its current bear market. A loss of over 50% would indicate that the downside had considerably further to go -- hardly an encouraging thought for Japan or the rest of the world.

INVESTMENT POSITION: That nervous, shrunken bull is still in the box. He's in because I haven't received any definitive bear signals yet, and a trend (in the current case, the bull trend) is taken to continue until PROVED otherwise. Translation: I don't like this overvalued market, but the bear case hasn't been proved yet.

I think the main trick today is to avoid losing money. That means sitting with mostly cash and possessing "the patience of 10 men." I've said this before, but I want to repeat it -- I think there's going to be a lot of money lost as impatient investors try to increase their income with dubious investments. Don't get greedy here: the bond market is high, the dollar is very weak but also very oversold, and I'm thinking that too many people are too bearish (at least in the short term) on the dollar. Long term, I don't know how the dollar is going to hold up, but short term the dollar's been battered to its knees, and as I said, there's too big a consensus that the dollar "is heading into the cellar" (heck, it's already there).

If you're dissatisfied with T-bill yields remember this -- a lower return doesn't mean you're losing money, it simply means that you're not receiving as much as you would if you owned a vehicle with a higher return. Losing money means a loss of capital. That's what happens when you buy a bond yielding a fat 9% and the price of the bond drops 12%.

PRICE PATTERNS: Do repetitive price patterns in the averages mean anything? The answer is -- very often they do, but not always. If the answer was always, trading would be a lot simpler. We would simply wait for the "right pattern" to appear, then buy stocks if it was a bullish pattern or sell if it was a bearish pattern.



But although traders and investors are always searching for certainty, the market doesn't like certainty, and just when something looks certain the market crosses us up. I might note here that the so-called bull signals and bear signals that are rendered by the Dow Theory are based on repetitive patterns, but even here there have been both bull and bear signals that have not worked out as advertised. There's only one certainty in the stock market. And that is that it's never easy.

At any rate, an interesting pattern has formed in the Dow at this time. It is what I call the up-slanting rectangle. Historically, there have been a number of these patterns, both up-slanting and down-slanting. The majority of up-slanting patterns have ultimately broken to the downside, and the majority of down-slanting triangles has broken out to the upside.

Ned Davis Research [(800) 241-0621] recently published this quite fascinating study of the current up-slanting rectangle superimposed on two previous up-slanting rectangles. The obvious question -- will the current pattern follow the two previous patterns?

The middle rectangle formed during 1981-82. From a high of 1024.05, the Dow dropped to a low of 776.92, a decline of 24%. The rectangle at the bottom of the page was formed in 1961. From a high of 734.91 the Dow dropped to a 1962 low of 535.76. This was a decline of 27%.

Whether the current up-slanting rectangle will follow the previous two remains to be seen. A drop in the Dow roughly equal to the 1961 and 1981-82 drop would take the Dow down to around 2300. However, it is highly improbable that the current pattern, even if it were to break down as did the two earlier patterns, would produce the same percentage loss. History does tend to repeat, but never in exactly the same way.

NOTES & QUOTES: December 5, GM, once the bellwether for the stock market, breaks below 30 for a new 52-week low. On the same day, IBM, a second bellwether,broke to a nine-year low."Big Blue," the world's largest computer company, has seen its profits declining since 1984. This year IBM may see the first decline in its annual sales in 45 years. By the end of this year and going back to 1985, IBM will have laid off 52,000 workers. IBM spends $6.5 billion a year on research and has a presence in 130 countries. But today, 50,000 competitors worldwide are snapping at IBM from every direction. Loyalty to IBM has declined over the years as many small companies have repeatedly beat it to the market. Some observers say that a failure by IBM to regain momentum may be a sign of a competitive decline for America's high-technology industry. From its all-time high of 176, IBM has now lost 48.8% of its value. From its all-time high of 50 1/2, GM has now lost 41% of its value.

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The 1992 federal budget deficit should make interesting reading. Early hints and thoughts -- October's deficit was up a screaming $13 billion over last October's deficit. The FDIC wants another $70 billion to remain solvent (Congress gave them $25 billion) and the RTC got another $80 billion. On top of that, tax receipts to the Treasury are taking a dive, and worse -- with

many corporations showing losses, there are going to be refunds, lots of them. Russell estimate for next year's real budget deficit -- probably over half a trillion dollars, with the total federal debt going over $4 trillion.

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Seymour Durst, the real-estate operator, has for years posted a "national debt clock" outside his place of business on 43rd St. at the Avenue of the Americas (we called it 6th Ave. when I was a kid). The clock was computerized to show the national debt increasing at the rate of $8,000 a second. But with this year's debt increase, the clock has been changed to show an increase of $13,000 a second.

* *

So much for the federal government, how about the states? This from Raymond Scheppach, executive director of the National Governors Assoc. At a recent briefing, Scheppach offered this rundown: "In 1989-90 when growth began to slow, governors tried to maintain services. So they raised taxes about $10 billion. Then, because the economy didn't respond, they had to cut $7 billion from their 1991 planned spending. Now they have gone back to raise another $15 billion -- the highest amount ever in a single year. Together, that represents a negative swing of $32 billion in tax boosts and service cuts in a two-year period, in a total state budget of $264 billion." Russell comment: And you wonder why the state governors are in trouble! How about this -- the federal government this year will add more to its debt than all 50 states are raising and spending for all of their programs.

* *

One of my favorite advisories (one that I often quote from) is David Fuller's *Fuller Money* out of London. David covers all aspects of the world markets (with many charts) including currencies, bonds, stock markets and economics. *Fuller Money* provides an excellent world view as well as numerous intelligent suggestions as to where to put one's hard-earned money. If you'd like to see a free sample of my friend David's *Fuller Money,* write to: 7 Swallow St., London W1R 7HD. David tells me he will honor this offer until the end of January.

* *

Canada is deep in recession. Canada's construction starts dropped 36% in the first half, while Canada's unemployment rate is 10.3%, and its productivity per worker has shown a zero gain since 1985.

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Today's American women don't feel any great pressure to get married (when I was a kid, a woman who wasn't married by age 25 was called "an old maid" -- remember that expression?). The number of women 30 to 34 who have never married has almost tripled in the last two decades, up from 6% in 1970 to 16% in 1990. Many years after my father died in 1956, I asked my mother why she never remarried (Mom had many offers). Replied my liberated mother, "Men aren't worth the trouble."

* *

Japanese output has declined for the first time in four years, and the nation is facing a mountain of bad debts. Japan's stock market crash of 1990 may seem mild compared to the threat created by the wobbly real estate market. While Japanese real estate values are just beginning to fall, bankruptcies have already reached five times last year's level ($34 billion) in the six months through September. Asset-inflated investments account for 65% of the total bad debt, and that total of bad debt so far is estimated to be around $150 billion. This has resulted in a shortage of credit, and it has put a squeeze on the banks. Over the past few years the Japanese banks have garnered 40-70% of their profits from the sale of stocks. Land prices in Japan went sky-high during recent years, and land values collateralized much of Japan's debt. The big question, the huge question, is how much deflation lies ahead for Japanese land?

Confrontations between Japan and the US are becoming bitter, a lot of the bitterness stemming from the massive trade imbalance in favor of Japan. This from Shintaro Shirihara, author of "The Japan That Can Say No": "The major reason for the imbalance in trade is the deficiency in American industrial competitiveness. If all the Japanese markets were opened, less than 20% of the trade imbalance would disappear. What is America going to do with the other 80%? . . . American politicians must confront the American people with the fact that they cannot continue to live in luxury on loan after loan. Demand must be constricted . . . To think of another war between Japan and the US is a joke. But as a joke, the US couldn't win a war with Japan now unless Japan gave it the money to pay for the war and exported the semiconductors."

An angry Lee Iacocca replies, "The limit of American tolerance is being reached. The $400 billion trade deficit with Japan in the past decade, the loss of entire American industries, the closed Japanese market, the threat of Japan boycotting our Treasury auctions and the army of high-paid Japanese lobbyists manipulating our government have led millions of Americans to say 'enough is enough.' The groundswell of resentment will erupt if Japan's economic policies don't change. America didn't take the sting of Pearl Harbor, or endure the pain of almost four years of war in the Pacific, or pour massive amounts of aid into post-war Japan or allow the Japanese free access to our markets while they kept their s closed to us, or spend billions to defend Japan during the Cold War, just to become an economic colony of Tokyo."

Russell comment: There's much truth on both sides. But why we ever allowed Japan an open door to our markets while they remained closed to us is a monument to American stupidity and spinelessness. The problem of Japan's closed markets and Japan's mania to expand and control economically must be resolved, much as the US' deficit sickness and industrial inefficiency must be resolved -- or else . . . .

* *

Japanese society is strange and exotic. Lots of crimes and corruption in Japan, but nobody ever seems to go to jail. This from *Reuters*: "More than 20 Japanese financial institutions and companies have made loans totaling $15 million to the country's leading crime syndicate, the *Asahi Shimbun* reported Thursday. The mass circulation newspaper said it had investigated 112 branches of the Yamaguchi-chi-gumi syndicate, as well as its headquarters in Kobe, and found loans had been provided at 19 affiliates. Yamaguchi-gumi is an umbrella organization for 944 affiliates compromising 26,000 members, according to police estimates. One in every three gangsters or *yakuza*, is a Yamaguchi-gumi affiliate." The revelation is only the tip of the iceberg, *Asahi* said, noting that its investigation covered only 3.4% of gangster offices.

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The German government foots only 4% of the nation's health bill compared with over 40% in the US. Germany insures virtually all its citizens as well as guest workers, pensioners, refugees and unemployed. Under the German system most people never see their doctor bills -- the bills are sent directly to the sickness fund for payment. Everyone in Germany earning less than $36,000 is required by law to join a nonprofit sickness fund, and there are eight types to choose from. People who make more can join or do anything they want privately. The system covers 88% of all Germans. The sickness funds are financed entirely by the premiums of the insured. Note: Of seven industrialized nations the US has the highest per capital health spending ($2,354 per person vs. a low of $836 in Britain). But the US has the highest infant mortality rate, Germany has the most doctors per 1000 population (3 per 1000), Japan has by far the most hospital beds per 1000 population (15.6 beds vs. 4.9 for the US) and Japan has by FAR the longest average hospital stays per person (52 days vs. 9.3 for the US). The Japanese seem to be hypochondriacs.

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How big are the world's stock markets? (1) New York is first with a market capitalization of $2.8 trillion. (2) Japan with $2.7 trillion. (3) London at $861 billion. (4) Germany at $356 billion. (5) France at $306 billion. (6) Italy at $149 billion. (7) Holland with $125 billion. (8) Spain at $123 billion. (9) Belgium at $65 billion.

* *

The Sultan of Brunei, reputedly the richest man in the world, has been busy doing what he does best -- buying and accumulating. Two years ago the Sultan bought the Beverly Hills Hotel for $185 million plus two houses on two acres behind the hotel for $10 million. Then a few weeks ago the Sultan (known as H.H. which stands for his His Highness) bought a home next to the hotel for $12.5 million. So now H.H. owns a complete island in the midst of Beverly Hills. Aw, but the smog would bother me.

* *

The *LA Times'* latest poll shows that for a general election the preference would be Bush 56%, Cuomo 33%. For a Democratic primary it would be Cuomo 38%, Brown 11%, Wilder 7%. For a Republican primary it would be Bush 84%, Buchanan 8%, Duke 2%.

* *

Consumer confidence has slid below even the low of the 1982 recession. Why? James Reston, the grand old man (former head of the Washington Bureau) of the *NY Times* may have the answer. In a Nov. 27 editorial he stated that although the "evil empire" has collapsed, Bush proposed a five year military budget that would be 25% higher than 20 years ago at the height of the cold war. Reston also notes that once the president has won the admiration of the American people, no force can withstand him.

He goes on, "President Bush seemed to sense the truth of this for a time, and talked of 'a new world order', which he started with a war that took the lives of more than 150,000 Iraqis and Kurds, which he barely mentioned. There was a kind of jingoistic rejoicing after the painful liberation of Kuwait, but since then the object of Bush's policies seems to have been his own re-election, and the Democrats have responded with their own brand of bush league politics. Accordingly, it's easy to understand why the American people are not rejoicing this Thanksgiving day, for they are suffering from the consequences of these wars, hot and cold.

"While paying for the threats to their security from abroad -- necessary as these payments were -- our children have been shortchanged in the schools; the problems of crime, drug abuse, health insurance and compassion for the homeless have been under-financed, if not neglected; and the nation's industries, once the envy of the world, have been losing their lead to our former enemies, Germany and Japan, whose budgets concentrate, not on military defense, but on research and development for products that are competing with ours and often beating us in world trade.

"In short, we have changed the world, but haven't changed our minds, and this is not surprising. For if the people were told for more than 12 years by their leaders that they should think about themselves and their own special interests, that they can spend their way to prosperity and happiness with borrowed money and that government is not the answer but the cause of all their problems, you shouldn't be surprised if they are disappointed in the pursuit of greediness, and ask, after their sacrifices in the cold war and Operation Desert Storm, 'Where's the rainbow?'"

Russell comment: There isn't any rainbow and there won't be one. For while the US has accumulated $3.7 trillion in federal debts and around $15 trillion in total public and private debts, Europe is pulling together and readying itself to be the largest economy in the world. At the same time, Asia is flexing its muscles and has already become a fiercely competitive producer. But the worst of it is that our Congress is still living in the past, still spending us into poverty, still steeped in special interest politics and corruption, and still obsessed above all with getting itself re-elected.

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In being frank about contracting the AIDS virus, Magic Johnson has become somewhat of a folk hero. But his hobby was sex. Johnson stated, "I confess that after I arrived in LA in 1979, I did my best to accommodate as many women as I could -- most of them through unprotected sex." Nobody seems to be talking about it, but how about the terror and agony of the hundreds of women who are now wondering whether they caught AIDS from Johnson. Johnson is already named in two paternity suits, the details of which have been suppressed. He also has one child, a 10-year old son. What I expect now is that Johnson is going to have numerous lawsuits filed against him as many of the women he had sex with will accuse him of having sex while he was aware that he had the virus. Second thought: if it was bad boy Mike Tyson who announced that he had the HIV virus, would he be treated as a hero?

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How 'bout those new laws? The *WSJ* (Nov. 29) states that "Congress has passed a law that many observers fear may undermine banks further." They quote one expert as saying, "This legislation creates a system of arbitrary, Draconian and inflexible regulatory criteria designed to ensure than no banks will ever again fail. In pursuit of this Quixotic goal, the legislation will ensure that while few banks will ever fail, none will ever prosper." And how about the new anti-crime bill? Here the *WSJ* states, "It was for naught. The House passed a bill that would help criminals . . . So long as we hobble law enforcement, crime in America will continue to be a national endeavor. For now, Congress is part of the problem."

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Gambling in America is more popular than ever. Las Vegas revenue for the financial year ending in June was a whopping $4.04 billion. Maybe it's just the lure of all that cheap food and all those bargain room rents that are luring the crowds (and believe me, the food and hotels are a bargain, assuming you don't lose your shirt in the casinos).

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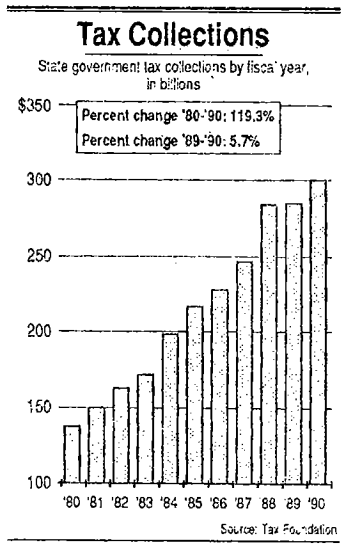

Are state and federal taxes killing the US economy? Some people think so, and count me among them. This chart from *Investor's Business Daily* shows what's been happening to state tax collections since 1980. Russell comment: What are we getting for our tax money? My answer is basically big government.

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Private industry is also having a bit of trouble with debt. For instance, the nation's 50 largest underfunded pension plans have a potential combined shortfall of $21.5 billion, up nearly 50% from last year.

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If you wonder where to move to next, or where to leave from next, this little chart may help (courtesy of *Parade* magazine). Notice that four California cities make the "most expensive list", while three Texas cities make the "least expensive list" (all free of state taxes) plus Pensacola (also state tax free).

10 Most-Expensive Cities		10 Least-Expensive Cities	
Location	Monthly Rental	Location	Monthly Rental
Honolulu, Hawaii	$980	Oklahoma City, Okla.	$305
New York, N.Y.	775	Colorado Springs, Colo.	325
Boston, Mass.	765	Austin, Tex.	330
San Jose, Calif.	735	Wichita, Kan.	330
Washington, D.C.	725	San Antonio, Tex.	330
San Francisco, Calif.	715	Tulsa, Okla.	335
Ventura, Calif.	680	Houston, Tex.	350
Los Angeles, Calif.	675	Pensacola, Fla.	355
Chicago, Ill.	650	Tucson, Ariz.	365
Hartford, Conn.	620	Salt Lake City, Utah	365

* *

Statistics & Facts: The good citizens of welfare state California were hit this year with $7 billion in new taxes and $7 billion in spending cuts. It was not enough. Last week State Controller Gray Davis announced that due to a steep decline in business tax collections, the state faces a $4 billion revenue shortfall during the current budget year. Davis added, that is unless the economy improves substantially.

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About 60% of all US hotels will lose money this year. This is in line with what I've been thinking for a long time -- the US has too many high-priced hotels and hotel chains. When the going gets rough (and it's now rough), travelers will choose the much more modest motels (in San Diego you can get a nice, clean room for as low as $30). High costs are killing profits at the better hotels, and the trend now is to cut out the frills (i.e., combs, cosmetics, sewing kits, shoe horns, etc.).

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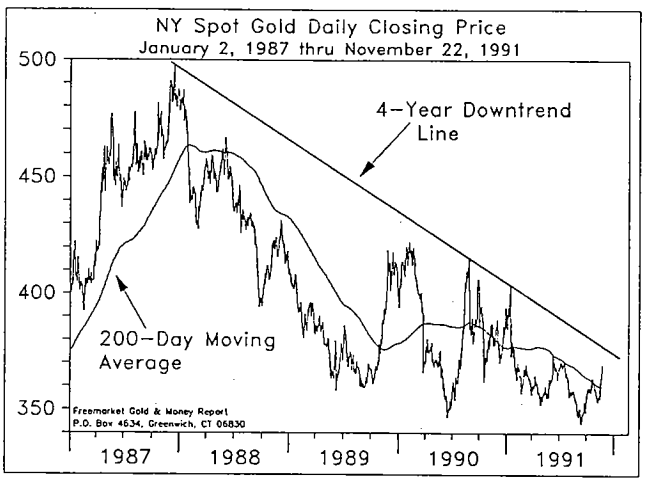
In September 190,000 people in the US joined the food stamp rolls. With 23 million people now receiving food stamps, you can say that one out of 10 in the US is on the stamp dole. To qualify for stamps, a family can't exceed poverty guidelines of $1,117 per month for a family of four.

* *

Babies anyone? The Census Bureau says that one in every four new mothers in the US is now unmarried. For the first time, more than half (actually 59%) of all births to women up to 18 and 19 years of age were out of wedlock. In 1990 13% of all births were Hispanic. Among Hispanics there were 93 births per 1000 women, for blacks the figure was 78, for whites it was 65 and for Asiatics it was a mere 58.

GOLD: With business swooning, and the Fed pushing interest rates down, the dollar has taken it on the chin against the mark, the yen and the major hard currencies. The combination of a tax cut, a runaway budget, huge federal deficits, a very negative trade balance, and a falling dollar has turned gold bullish.

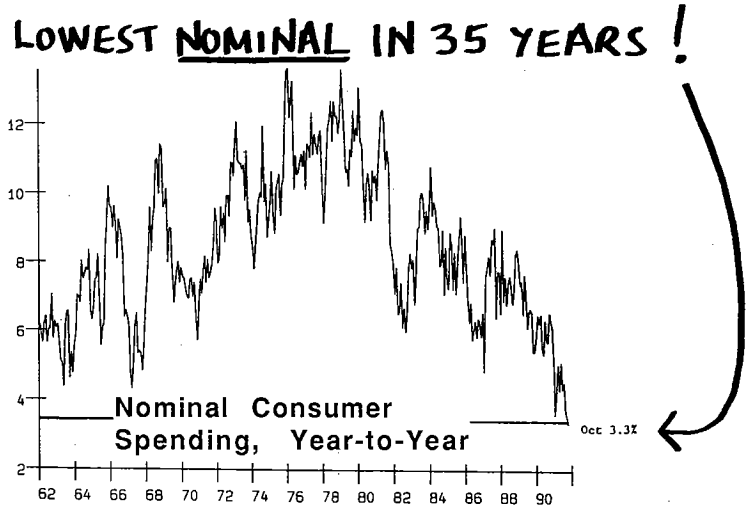
This chart from *Gold & Money* (PO Box 4634, Greenwich, CT 06830) pretty much tells the gold story. Here we see gold pushing out above its 200-day moving average. The four-year descending trendline comes in at about 380 on spot gold. So at this point I'd say that anything above 380 would represent a major upside or bullish reversal for gold. The two lows of 1990 and 1991 have formed a powerful double bottom for gold, and now it's a question of how much upside power gold can generate.



LATE COMMENTS: Fundamental: I just received this rather shocking chart (above right) from economist Ed Hyman's *ISI Group*. Here we see the year-to-year growth (or lack thereof) in nominal consumer spending (the notation on the chart is Ed's). Let's face it, the consumer is scared. He's seeing his neighbor lose his job, or worse, he's been fired himself. And he's trying to get out from under his debt. As for buying, he's buying less, and if it isn't on sale he doesn't even want to hear about it.

Technical: The major plus in the technical picture is in the action of the Transports. I said that the critical downside points for the Averages were the August 19 lows of 2898.03 on the Dow, 1147.91 on the Transports. The Dow broke decisively below its

Finally, **Season's Greetings to all my loyal subscribers.** Hey, we're all survivors, and we live in interesting times -- and let's be thankful for that.



low, but the Transports are not confirming. Furthermore, on the most recent test the Transports halted at an even higher level, 1172.27 on Nov. 29. So from a Dow Theory standpoint, the Industrials are acting poorly, but the Transports are refusing to confirm. Therefore, and this is very important -- watch the **1172.27** and **1147.91** levels on the Transports. If they hold, this market will rally. If they are violated -- trouble, big trouble.

I've been stressing the importance of those moving averages of the Dow. The situation there isn't promising. The 200-day MA for the Dow is now 2968; the 30-day MA for the Dow is 2978. With the 30-day MA now dropping rapidly, it is almost a certainty that the 30-day MA will break below the 200-day MA. This would put the two moving averages in the bearish mode and constitute a major negative in the technical picture.

Another comment: Many months ago I published a study of what I called my **Dow Directional Index.** This is a simple point & figure chart (bottom of page). Each day the Dow is up by any amount, I show an X, each day the Dow is down I show a zero. The trend of the directional chart has been basically up since the 1987 crash low. But now this has changed. The peak for the Directional Index was recorded in June. Since then, as the chart shows, the Directional Index has been declining and the Index is now at a 19-month low. What this means is that since June the Dow has been declining on more days than it has been advancing. This is what happens in bear markets. Nobody seems to have noticed this new phenomenon. But my Directional Index points this out very clearly.

FINAL THOUGHTS: The market is oversold, and maybe, just maybe, it's tired of going down. The Fed has lowered the Fed Funds rate for the umpteenth time, pressured by an Administration that is as demoralized as it is frightened. On the strength of the Fed's latest action, bonds have rallied strongly, which is a positive for the stock market. Meanwhile, it is clear that the Administration is perfectly willing to let the dollar go down the drain -- as long as the decline is "orderly."

I sit here looking out at the blue California sky, and I wonder -- will we see the time when the Japanese (with their powerful yen), and the Europeans (with a new, single European currency), simply refuse to accept anything denominated in dollars? Aw, I'm tired of worrying, let the dollar go to hell: if the US Treasury doesn't care, who am I to complain?